

## **Fees and Service Charges Follow-up**

September 2000

**City Auditor's Office**

**City of Kansas City, Missouri**



September 27, 2000

Honorable Mayor and Members of the City Council:

This follow-up report on efforts to monitor revenues and costs of activities supported by user fees was initiated by the city auditor pursuant to Article II, Section 13 of the city charter. The follow-up was initiated as part of the City Auditor's Office policy of determining department progress in improving program operations subsequent to issuance of our audit and special reports.

User fees are an important source of revenue. Increases in fee revenues helped the city achieve a balanced budget in fiscal year 2001. One of the City Council's top priorities is to eliminate the structural imbalance, and user fees can be one method of addressing this priority. FOCUS (Forging Our Comprehensive Urban Strategy) recommended that fee-based services be self-supporting whenever possible, and recently the City Council passed a resolution for city departments to submit information on fee revenues and costs as part of the annual budget process. Identifying costs for fee-based activities will be one outcome of the city's recent competitive efficiency initiative, which includes the development of an activity-based costing system.

In our February 1998 special report, *Fees and Service Charges: A Comprehensive System is Needed*, we recommended that the city manager develop a user fee policy and a review program to monitor revenues and expenditures, and to calculate and report on cost recovery for fee-supported activities. In October 1998, the city manager drafted a user fee policy/review process, but did not submit it to the full City Council for deliberation.

Information regarding user fees remains inadequate. The city's Office of Management and Budget (OMB) has begun compiling information on the city's fees, initially focusing efforts on fees that individually generate at least \$50,000 in annual revenues. Some fees generate less revenue and, consequently, they are excluded from OMB's monitoring efforts. Our original report identified 416 different fees and user charges. In contrast, OMB's current database includes only 387 fees. Successful monitoring of cost recovery for fee-based activities demands scrutiny of most, if not all, of the city's fees.

Some information on direct costs has been developed since the release of our original report, but information on indirect costs remains largely unknown. Accurate information on the direct costs of all fee-based activities is needed to satisfy the Governmental Accounting Standards Board's new reporting requirements. Information on indirect costs would allow the city to seek reimbursement of administrative costs connected with some federal grants. Information on both direct and indirect costs would enable the city to determine the extent to which full costs are recovered from the fees charged, a critical component for evaluating the adequacy of the city's fees.

We recommend the city manager submit his proposed user fee policy and review process drafts to the City Council for deliberation. Criteria for determining which fees will be monitored should ensure that a majority of the city's fees are included and that the reporting requirements of GASB 34 are considered. The city manager should ensure the operating departments collect and submit the necessary information on individual fee revenues and costs. Indirect costs should also be identified, allocated to the operating departments, and included in future calculation of cost recovery, which should be routinely communicated to the City Council. Finally, the city should seek reimbursement of administrative costs from grant funded activities.

We sent the draft follow-up report to the city manager and the director of the Office of Management and Budget on July 21, 2000. A written response from the city manager is included as Appendix D. We appreciate the courtesy and cooperation extended to us during this project by staff in the Office of Management and Budget, as well as staff in Codes Administration, Parks and Recreation, and Public Works. The team for this project was Evalin McClain and Gary White.

Mark Funkhouser  
City Auditor

---

# Fees and Service Charges Follow-up

---

## Table of Contents

Introduction	1
Objectives	1
Scope and Methodology	2
Background	2
User Fees Defined	3
Importance of User Fees Is Widely Recognized	4
Summary of the 1998 Report	6
Findings and Recommendations	9
Summary	9
A User Fee Policy/Review Process Has Not Been Adopted	10
Information on User Fees Remains Incomplete	11
Information on Some City Fees Is Now Collected	11
OMB Should Separate Fees from Other Revenue Sources	13
Cost Information Remains Inadequate	14
Information on Direct Costs Will Soon Be Required	14
Indirect Costs Should Be Identified	17
Recommendations	20
Appendices	21
Appendix A: Prior Recommendations	21
Appendix B: Audit Report Tracking System (ARTS) Reports	25
Appendix C: City Manager's Draft User Fee/Service Charge Policy/Annual User Fee Review Process	37
Appendix D: City Manager's Response	45

---

## List of Exhibits

Exhibit 1.	Number of Fees by Department, 1998 and 2000	12
Exhibit 2.	Fee Revenues by Department, Fiscal Years 1997 to 1999	13
Exhibit 3.	Direct Cost Recovery Rates for Selected Activities, Fiscal Years 2000 and 2001	15
Exhibit 4.	Criteria for Identifying Reimbursable Indirect Costs	18



---

## Introduction

---

## Objectives

This follow up report on city fees and service charges was conducted pursuant to Article II, Section 13 of the Charter of Kansas City, Missouri, which establishes the Office of the City Auditor and outlines the city auditor's primary duties.

Our February 1998 special report<sup>1</sup> provided the City Council with information on the fees and service charges collected by the city, and the adequacy of available information regarding the relationship between the revenues received for these services and the costs incurred by the city to provide them. Our follow-up examines the actions taken in response to the problems identified and recommendations made in the previous report to improve the city's monitoring and reporting of fee revenues and costs. The follow-up was designed to answer the following questions:

- What progress has been made in developing and adopting a user fee policy as well as a user fee review process?
- What has city staff done to identify city fees and service charges and the revenues collected?
- What has been done to identify and report on the costs of fee-based services including the development and implementation of an indirect cost allocation plan?
- What progress has been made in obtaining cost reimbursement for grant administration efforts?

---

<sup>1</sup> *Fees and Service Charges: A Comprehensive System is Needed*, Office of the City Auditor, City of Kansas City, Missouri, February, 1998.

## **Scope and Methodology**

This follow-up report sought to assess the city's progress in addressing problems identified in our February 1998 report. It is not intended to be another full-scale review of the city's user fees and service charges.

This follow-up was conducted in accordance with government auditing standards, with the exception of the completion of an external quality assurance control review of the City Auditor's Office within the last three years.<sup>2</sup> Methods included:

- Interviewing staff in the Office of Management and Budget (OMB) and in the Codes Administration, Parks and Recreation, and Public Works departments.
- Reviewing prior audit work and subsequent Audit Report Tracking System (ARTS) reports.
- Analyzing OMB's current database of revenues by source.
- Reviewing the FOCUS Governance plan.
- Reviewing the city manager's proposed user fee/service charge policy and proposed annual user fee review process.
- Reviewing Resolution 990401 and the city manager's related response, and Resolution 990594.
- Reviewing materials on Statement 34 from the Governmental Accounting Standards Board.

No information was omitted from this report because it was deemed privileged or confidential.

---

## **Background**

In 1995, the City Auditor's Office and the Office of Management and Budget (then known as the Office of Budget and Systems) began a joint study to identify fees and service charges collected by the city. Due to other priorities, the study was not completed at that time. However, in June 1997, the City Auditor's Office resumed work on the project and in

---

<sup>2</sup> The last review was in April 1995. An external review is planned for the current year.



February 1998 issued the special report, *Fees and Service Charges: A Comprehensive System is Needed*.

### User Fees Defined

In our original report, we defined user fees as any service or activity performed by the city for which we charge a fee or provide a benefit to an individual, group, or business. We excluded payments for basic utility charges such as water and sewer service, but included fees charged by the city that are related to providing these services, such as testing and inspecting a water meter at a customer's request.

Our definition is similar to the one promulgated by the Government Finance Officers Association (GFOA). The GFOA definition states:

User charges and fees are payments for voluntarily purchased, publicly provided services that benefit specific individuals, and exhibit public-good characteristics. They include such fees as recreational fees, sanitation charges and health service fees.<sup>3</sup>

GFOA identified three conditions that help distinguish user charges and fees:

- There must be an identifiable set of individuals or firms, not the whole community, that directly benefits from provision of the good;
- It must be possible to exclude individuals from consuming the good if they do not pay;
- Individuals must have the right to choose whether to consume the good.<sup>4</sup>

In June 1999, the Governmental Accounting Standards Board (GASB) issued Statement 34, *Basic Financial Statements – and Management's Discussion and Analysis – For State and Local Governments*. The statement establishes new financial reporting requirements, including expanded reporting of revenues and direct costs for fee-based activities. GASB expands on GFOA's definition, identifying exchange transactions

---

<sup>3</sup> Dennis Strachota and Bruce Engelbrekt, *Catalog of Public Fees and Charges*, (Chicago, Illinois: Government Finance Officers Association, 1992), p. vii.

<sup>4</sup> C. Kurt Zorn, *Local Government Finance: Concepts and Practices*, (Chicago, Illinois: Government Finance Officers Association, 1991), p. 143.

and revenues from fines and forfeitures as charges for service. GASB states that:

*Charges for services* include revenues based on exchange or exchange-like transactions. These revenues arise from charges to customers or applicants who purchase, use, or directly benefit from the goods, services, or privileges provided. Revenues in this category include fees charged for specific services, such as water use or garbage collection; licenses and permits, such as dog licenses, liquor licenses, or building permits; operating special assessments, such as for street cleaning or special street lighting; and any other amounts charged to service recipients. Payments from other governments that are exchange transactions – for example, when County A reimburses County B for boarding County A’s prisoners - also should be reported as charges for services.<sup>5</sup>

GASB states that because fines and forfeitures are generated by the program, they are more like charges for services than grants and contributions, therefore, they should also be classified in the charges for services category.<sup>6</sup>

### **Importance of User Fees Is Widely Recognized**

User fees, service charges, and license and permit fees are an important source of municipal revenues. Increased revenues from fees helped the city achieve a balanced budget in fiscal year 2001. The City Council has made eliminating the structural imbalance a priority; maximizing revenues from existing city sources is one method of addressing that goal.

Identifying the city’s costs from fee-based activities is also one of the byproducts of the city’s recent competitive/efficiency initiative that includes the development of an activity-based costing system. The importance of determining whether the fees charged cover the costs incurred was among the recommendations of the city’s recent planning

---

<sup>5</sup> *Guide to Implementation of GASB Statement 34 on Basic Financial Statements – and Management’s Discussion and Analysis – for State and Local Governments*, (Norwalk, Connecticut: Governmental Accounting Standards Board, 2000), p. 80.

<sup>6</sup> *Guide to Implementation of GASB Statement 34 on Basic Financial Statements – and Management’s Discussion and Analysis – for State and Local Governments*, p. 27.

effort, Forging Our Comprehensive Urban Strategy (FOCUS).<sup>7</sup> Included among the recommendations was the following comment concerning the city's fee-based activities:

To the extent practical and equitable, fee supported services shall be self-supporting. Where feasible and desirable, the city shall seek to recover full direct and indirect costs but shall also acknowledge that consideration and provision must be made for users without economic resources to pay full cost for some quality of life services (parks and recreation, immunizations, etc). User fees shall be reviewed on a regular basis to calculate their full cost recovery levels, to compare them to current fee structure, and to recommend adjustments where necessary.<sup>8</sup>

Resolution 990594, passed on April 29, 1999 expresses the City Council's intent to establish a year-round budget and planning process. The impetus for the resolution includes Council concerns about the structural imbalance, FOCUS strategies for maintaining the city's financial health, and increased funding commitments for deferred maintenance, police officers, and street lights. According to the resolution:

As a part of the budget process each department will submit in the appropriate format a detailed review of current fees and charges for service. This submission will identify the program generating the fee, the cost of the service provided, the total revenue generated, and the percent of the program costs covered by the fee. In addition, departments shall recommend for City Council consideration the appropriate level of costs that the fees should cover along with an explanation of why that coverage is appropriate.<sup>9</sup>

---

<sup>7</sup> FOCUS was an effort that began in September 1992 when the mayor, City Council, and approximately 1,000 citizens guided an innovative planning process that has resulted in a new community driven, fact-based, cohesive policy framework to guide the city's public policy discussions. The resulting comprehensive and strategic plan, FOCUS Kansas City, was adopted by the City Council in 1997.

<sup>8</sup> FOCUS Kansas City, *Governance Plan Draft*, July 1997, p. 13-draft.

<sup>9</sup> Resolution 990594, April 29, 1999.

**Cost Recovery Information Contributes to  
Codes Administration's Success**

Staff in Codes Administration report they have had a fee tracking system since 1994, and that the department has been 100 percent supported by user fees for the past five years. According to Codes Administration staff, one of the benefits of knowing what portion of costs are recovered from the fees charged is improved opportunities to successfully justify increases in equipment or staffing that Codes staff believe are necessary.

**Summary of the 1998 Report**

Our February 1998 special report found that while Kansas City had a large number of fees, the city lacked specific information on the revenues received from its fees, an adequate method of determining the total costs incurred by the city to provide fee-based services, and a systematic method of determining what percentage of the costs incurred in providing these services is recovered from the fees charged. The report also found that the city lacked an indirect cost allocation plan, something developed by most of the top 100 cities in the United States. The lack of such a plan prevented Kansas City from seeking cost reimbursement for administering federal grant programs.

We recommended that the city manager develop a comprehensive list of city services funded in part by user fees and identify any additional services that the city could consider for fee-based funding. We also recommended the city manager direct departments to track revenues collected for each individual fee-based activity. In addition, we recommended the development of a user fee policy, and a user fee review process. Further, we recommended identifying the full costs of fee-based services, including indirect costs, and seeking reimbursement of administrative costs. (See Appendix A for the recommendations from the 1998 report.) An Audit Report Tracking System (ARTS) report submitted by management is included as Appendix B.

**GLOSSARY**

**Direct costs:** Those costs directly involved in providing the service or program, such as wages, materials, equipment, and supplies.

**General taxes:** Compulsory payments, such as sales, income, or property taxes, used to finance general government programs. Tax payments are not linked, directly or indirectly, with an individual's consumption of specific goods and services.

**Indirect costs:** Administrative costs not directly attributable to providing the service or program but which support the service provision. These include costs for support staff providing accounting, budgeting or staff supervision both within the department or division and for the city as a whole, such as Finance, Law, City Clerk, etc.

**License and permit fees:** Payments required to cover the costs of government regulation of private activities, such as automobile inspection fees or professional licenses.

**Special assessments:** Compulsory payments imposed on real property for specific benefits, such as local assessments for sidewalks. In theory, costs are allocated in line with benefits received.

**User charges and fees:** Payments based on an individual's voluntary consumption of goods and services. They are similar to private market prices but may involve a subsidy to specific users.

**Utility charges:** Charges for sewer, water, and publicly provided electricity. These are similar to private market prices. Benefits accrue to identifiable individuals and payment varies with consumption.

*Fees and Service Charges Follow-up*

---

## Findings and Recommendations

---

### Summary

The city does not have an approved user fee policy and review process. In October 1998, the city manager distributed drafts of a proposed fee policy and proposed annual fee review process to department heads and user fees were discussed with the City Council during budget deliberations. However the proposed policies have never been given to the Council for their deliberation.

Information on the city's user fees remains inadequate. The city's Office of Management and Budget (OMB) has begun compiling information on the city's fees, with initial efforts focusing on those fees that generate at least \$50,000 in annual revenues. Some fees generate less than \$50,000 annually, and consequently, their cost recovery rates are not identified. Successful monitoring of revenue and costs for fee-based activities demands the scrutiny of most, if not all, fees.

Some information on direct costs has been developed while indirect costs remain largely unknown. The development of complete direct cost information cannot be delayed much longer because the reporting requirements from the Governmental Accounting Standards Board will soon require reporting all fee revenues and direct costs. . The lack of information on indirect costs prevents the city from seeking reimbursement for administrative costs connected with some federal grants. Lacking complete information on direct and indirect costs impedes the city's efforts to accurately determine the extent to which costs are recovered from the fees charged

We recommend the city manager submit his proposed user fee policy and review process drafts to the City Council for deliberation. Criteria for determining which fees will be monitored should focus on more than the revenue provided by each fee and ensures full compliance with expanded reporting requirements. The city manager should ensure operating departments collect and submit the required information on individual fee revenues and direct costs. Indirect costs should be determined, allocated to the operating departments, and included in future calculations of cost recovery. Finally, the city should seek reimbursement of administrative costs from grant-funded activities.

## **A User Fee Policy/Review Process Has Not Been Adopted**

The city manager sent a draft user fee policy and review process to department directors in October 1998 and the issue of user fees was discussed with the City Council during budget deliberations. The proposed policies were not, however, submitted to the City Council for deliberation.

In our original report, we recommended the city manager propose establishing a fee policy that describes the level of funding the city will provide for different classifications of fees. While some fees would be expected to fully cover the costs of providing the related fee-based services, others would recover only a portion of the cost.

We also recommended that revenues and expenditures from fee-based activities be identified and used to calculate cost recovery. Finally, we recommended the city manager establish a system that routinely compares actual cost recoveries to the policies established by the Council, along with a mechanism for periodically communicating the results to the City Council.

The city manager distributed drafts of the user fee policy and review process to department heads in October 1998. (See Appendix C for a copy of the drafts.) The executive overview included in the city manager's submitted budget for fiscal year 2001 indicates that during the budget priority setting effort, the City Council received:

An update on user fee policy, which examined the amount of revenue generated by these fees and the annual review process.<sup>10</sup>

Budget staff report that the City Council has been informed about both draft policies but has not been given the opportunity to discuss and approve them. Budget preparation materials for fiscal years 2001 and 2002 include a "Kansas City User Fee Policy" as an appendix and it appears to be very similar to the one proposed by the city manager in 1998. We recommend the city manager seek approval from the City Council of both the proposed user fee/service charge policy and the proposed annual user fee review process.

---

<sup>10</sup> Executive Overview, Submitted Budget 2001, Kansas City, Missouri, p. EO-1.



---

## Information on User Fees Remains Incomplete

Information regarding user fees charged by the city remains incomplete. Since the release of our original report, the Office of Management and Budget (OMB) has begun to collect information on fees, focusing initial efforts on those providing at least \$50,000 in annual revenues. Fees collected by several departments do not meet this threshold, excluding them from current efforts to scrutinize their revenues and costs. Effective efforts to monitor cost recovery for fee-based activities demand scrutiny of most, if not all, fees.

### Information on Some City Fees Is Now Collected

Our original report recommended that the city manager develop a comprehensive list of city services, identifying all services funded in part by user fees and those funded by other sources. Identifying all fee-based activities could help identify fees that had not been increased to keep up with the cost of providing the fee-based services. It could also identify services for which fees were not being charged but might appropriately be supported by fees.

In recent years, OMB's budget instructions requested that departments provide information on fees and revenues. Budget instructions for fiscal year 2001 requested departments provide information including the fee amount, adopted revenue, expenditure figures (direct costs only), and information on cost recovery. OMB staff report they initially focused on services generating \$50,000 in annual revenues. Using this information, OMB has established a database of information on reported revenues by source and costs. The budget instructions for fiscal year 2002 requests departments provide cost recovery analysis for "every program/organization partially or fully funded by user fees of over \$100,000 in annual revenue."<sup>11</sup>

Fees collected by several departments apparently do not meet these thresholds, even when all their revenues are combined. Our original report identified 416 different fees and user charges, collected by 17 city departments. In contrast, OMB's database includes 387 separate fee-based revenue sources collected by 13 city departments. (See Exhibit 1.)

---

<sup>11</sup> *Budget Reference Manual, Fiscal Year 2001 – 2002*, Office of Management and Budget, City of Kansas City, Missouri, p. 60.

Exhibit 1. Number of Fees by Department, 1998 and 2000

Department	CAO 1998	OMB 2000
Parks and Recreation	87	141
Neighborhood and Community Services	80	13
Codes Administration	48	14
City Planning and Development	28	9
Aviation	27	46
Finance	26	57
Water Services	23	50
Health	22	14
Public Works	20	17
Convention and Entertainment	15	17
Fire	11	3
Municipal Court	12	0
Office of Environmental Management	9	0
City Clerk	5	0
Human Relations	1	0
Human Resources	1	0
Housing and Community Development	1	0
City Auditor's Office	0	0
Law	0	0
Information Technology	0	5
Police	0	1
Total Fees	416	387

Sources: *Fees and Service Charges: A Comprehensive System is Needed*, Office of the City Auditor, City of Kansas City, Missouri, February, 1998, p. 4; and Office of Management and Budget and City Auditor's Office calculations.

OMB's current database excludes fees collected by six departments, including the Municipal Court, Office of Environmental Management and City Clerk. Fees excluded from OMB's current monitoring efforts will not receive the same level of scrutiny of their revenues and costs. As efforts to collect information on the city's significant revenue producing fees are completed, decisions are needed regarding which of the city's other fees should be included in OMB's database.

**GASB identifies more user fees.** The Governmental Accounting Standards Board (GASB) broadly defines user fees to include exchanges transactions and fines and forfeitures. Some of these items, for example fines collected by the Municipal Court, are not currently included in OMB's database. Compliance with the requirements of GASB 34 may also require monitoring these items.

Effective monitoring of cost recovery for fee-based activities demands scrutiny of most, if not all, fees. The city manager should establish criteria for determining which fees will be monitored that focus on more than just the amount of revenues received from the fee. The reporting

requirements of GASB 34 should also be considered. Once all the fees that will be monitored are identified, the city manager should ensure operating departments collect and submit information on the revenues and costs connected with these fee-based activities.

### **OMB Should Separate Fees from Other Revenue Sources**

OMB now maintains a database of revenue sources and identifies the total revenues each source provides to the city on a fiscal year basis. OMB's database includes 476 service charges, licenses, permits, and fees, as well as items not normally considered user fees, including interest income, inter-fund transfers, grants, and utility charges. Using the information maintained by OMB, we compared each item to GASB's definition of charges for service and identified the revenue sources that meet their criteria. We found that 387 of the 476 revenue sources included in the OMB database actually meet GASB's definition of a cost for service. Exhibit 2 identifies the total fee revenues by department.

Exhibit 2. Fee Revenues by Department, Fiscal Years 1997 to 1999

Department	Number of Fees	1997	1998	1999
Water Services	50	\$98,401,762	\$104,495,266	\$106,712,520
Aviation	46	65,748,095	71,810,931	76,243,730
Finance	57	27,590,083	28,009,991	26,923,406
Parks and Recreation	141	7,758,406	9,290,466	10,219,096
Convention and Entertainment	17	5,467,353	5,307,000	9,560,000
Codes Administration	14	5,492,189	5,295,815	5,388,879
Public Works	17	4,182,027	4,080,929	4,519,458
Health	14	3,448,953	3,582,924	3,418,641
Neighborhood and Community Services	13	1,811,232	1,765,000	2,276,000
Fire	3	1,614,257	1,841,146	1,960,000
Information Technology	5	1,011,106	1,267,477	953,856
City Planning and Development	9	690,808	674,000	511,400
Police	1	127,815	125,000	228,044
Totals	387	\$223,344,086	\$237,545,945	\$248,915,030

Sources: Office of Management and Budget, and City Auditor's Office calculations.

While we recognize the importance of tracking revenues from other sources such as interest income, grants, and utility charges, we recommend separately identifying user fee revenue sources from other items to identify total revenues derived from fee-based activities.

## **Cost Information Remains Inadequate**

Our original report recommended that cost information for fee-supported services be developed and that all costs (direct and indirect) be identified. Since the report, information on direct costs for some activities was developed and combined with revenue data to calculate direct cost recovery rates for some city activities, however, OMB staff report additional work is needed. Recent changes in government accounting standards will soon require information on all direct costs.

Information on the indirect costs that should be allocated to the city's fee-based services is unavailable, pending completion of the city's activity-based costing efforts. Until indirect costs are identified and allocated, the city is prevented from seeking reimbursement of administrative costs connected with some federal grants. Lacking information on all costs also impedes efforts to determine full cost recovery rates for the city's fee-based activities.

### **Information on Direct Costs Will Soon Be Required**

Our original report recommended the city manager direct all departments with fee-based activities to begin identifying the full cost (direct and indirect) associated with providing these services. Direct costs for some activities have been identified but OMB staff report additional work is needed. A recent change in government reporting standards requires all direct costs associated with providing fee-based services to be identified for inclusion in the city's financial statements beginning in fiscal year 2003.

### **Direct cost recovery has been calculated for some activities.**

As part of the fiscal year 2001 budget submittal, OMB asked departments to provide user fee cost recovery information using adopted revenues and adopted budgeted direct program costs. The January 2000 ARTS report included information on cost recovery rates provided by the departments. Some activities only recover a portion of the city's direct costs from the fees charged. Reviewing this information and determining the adequacy of the cost recovery rates achieved would be a function of the user fee review process. (See Exhibit 3 for selected recovery rates from the ARTS report. See Appendix B for the full list of recovery rates attached to the ARTS report.)

Exhibit 3. Direct Cost Recovery Rates for Selected Activities, Fiscal Years 2000 and 2001

Type/ Department	FY 2000 Adopted Revenue	Direct Program Costs	FY 2000 Cost Recovery	FY2001 Estimated Revenue	Direct Program Costs	FY 2001 Cost Recovery
<b>User Fees</b>						
Parks and Recreation – Zoo	\$5,400,000	\$8,955,575	60.3%	\$5,427,000	\$8,892,445	61.0%
Parks and Recreation – Athletic Programs	149,051	505,493	29.5%	147,410	514,944	28.6%
Parks and Recreation – Community Centers	778,000	4,182,176	18.6%	1,062,865	4,439,274	23.9%
<b>Licenses and Permits</b>						
Finance/Neighborhood & Community Services – Regulated Industries	\$939,494	\$397,851	236.1%	\$725,394	\$486,044	149.2%
Fire – Fire Prevention Permits	825,000	955,773	86.3%	850,000	1,081,536	78.6%
Health – Food Inspection Fees	365,732	533,180	68.6%	365,732	523,599	69.8%
<b>Other Charges</b>						
City Development – Relocation Fees	\$75,400	\$118,077	63.9%	\$75,400	\$136,682	55.2%
Neighborhood & Community Services – Reimbursement for Weed Control	130,000	632,219	20.6%	180,000	736,834	24.4%
Neighborhood & Community Services – Reimbursement for Building Demolition	175,000	4,346,518	4.0%	150,000	4,078,604	3.7%

Source: Memorandum from Larry Plaisted, Budget Officer, to members of the Finance & Audit Committee, January 11, 2000.

**Revised standards require reporting all direct costs.** The Governmental Accounting Standards Board's requirements for state and local governments were recently expanded to include reporting the impact of fee-based services in city financial statements. Statement 34 requires local governments:

To report the relative financial burden of each of the reporting government's functions on its taxpayers. This format identifies the extent to which each function of the government draws from the general revenues of the government or is self-financing through fees and intergovernmental aid.<sup>12</sup>

<sup>12</sup> *Guide to Implementation of GASB Statement 34 on Basic Financial Statements – and Management's Discussion and Analysis – for State and Local Governments*, p. 78.

The new reporting requirements are intended to help users of government financial reports:

- Assess the finances of the government in its entirety, including the year's operating results;
- Determine whether the government's overall financial position improved or deteriorated;
- Evaluate whether the government's current-year revenues were sufficient to pay for current-year services;
- See the cost of providing services to citizens;
- See how the government finances its programs – through user fees and other program revenues versus general tax revenues; and
- Make better comparisons between governments.<sup>13</sup>

Governments with total annual revenues of \$100 million or more are required to apply the requirements of GASB 34 to financial statements for periods beginning after June 15, 2001. For Kansas City, Missouri, financial statements prepared for fiscal years 2003 and beyond are affected.

Complying with these new reporting requirements means that direct costs for all fee-based activities must be identified in time for inclusion in the fiscal year 2003 financial statements. We recommend the city manager ensure that all direct costs are identified in time to meet this deadline.

### **Indirect Costs Should Be Identified**

Our original report also recommended developing an indirect cost allocation plan, a necessary step for assigning the city's indirect costs to the operating departments. Portions of these costs were expected to be attributed to providing fee-based services, so we further recommended the city manager ensure the allocated indirect costs were included in the calculation of the city's total costs for providing these services.

---

<sup>13</sup> *Preface and Summary of Statement No. 34, Basic Financial Statements – and Management's Discussion and Analysis – for State and Local Governments*, Governmental Accounting Standards Board, (<http://www.rutgers.edu/Accounting/raw/gasb/st/summary/gstsm34.html>).

Accurate information on the indirect costs that should be allocated to fee-based services is unavailable. Instead of allocating costs based on actual usage of other department functions, the city employs a uniform allocation method, distributing indirect costs to departments as administrative service charges. According to OMB staff, two departments, Public Works and Neighborhood and Community Services, have indirect cost allocation plans.

The city's activity-based costing system is expected to determine the full costs of providing city services. However, until indirect costs are identified and allocated, the city is prevented from seeking reimbursement of administrative costs connected with some federal grants and remains unable to compare the full costs of providing fee-based services to the revenues received.

**Activity-based costing efforts have begun.** In March 1999, the City Council passed Resolution 990401 directing the city manager to implement activity-based costing. Activity-based costing (ABC) is a method of assigning costs to services based on their consumption of resources. ABC captures organizational costs for operations, including overhead, when appropriate, and applies these costs to the services that required the costs to be incurred. Recognized benefits of ABC include more accurate information on the costs of business processes and justification for user fee increases to recover both direct and indirect costs.

**Identifying indirect costs is necessary for grant reimbursements.**

The development of an indirect cost allocation plan would allow the city to seek reimbursements of administrative costs from activities funded through federal grants. Our original report noted that recovery of administrative costs was one of the benefits identified by the city's outside auditors as achievable with an indirect cost plan.

The outside auditors recommended a plan be developed for use in determining administrative cost allowances available from all intergovernmental revenues. Once the amount of recoverable administrative costs was known, the outside auditors suggested the city make an informed decision regarding the advisability of recovering such costs from grant revenues.

Since the release of our original report, the city manager directed OMB to determine the potential recovery of indirect costs from grants. All departments will be asked to review which grant programs allow for administrative cost recovery and whether the recovery would reduce the amount available for program services.

We identified ten criteria which must be considered when determining whether costs are reimbursable.

Exhibit 4. Criteria for Identifying Reimbursable Indirect Costs

1. Necessary and reasonable.
2. Allocable under the provisions of Circular A-87.
3. Authorized or not prohibited.
4. Conform to limitations or exclusions set forth in Circular A-87.
5. Consistent with policies, regulations and procedures.
6. Treated consistently. A cost may not be assigned to a federal award as a direct cost if any other cost incurred for the same purpose in like circumstances has been allocated to the federal award as indirect costs.
7. In accordance with generally accepted accounting principles (GAAP).
8. Not included in another award and not used for cost sharing or matching in either the current or a prior period, except as specifically provided by federal law or regulation.
9. Net of applicable purchase discounts, rebates or allowances, recoveries or indemnities on losses, insurance refunds or rebates and adjustments of overpayments or erroneous charges.
10. Adequately documented to demonstrate compliance with Circular A-87 cost principles.

---

Source: Participants Manual, *Governmental Accounting, Financial Reporting and Budgeting*, (Alexandria, Virginia: Association of Government Accountants), pp. 4 - 13 to 4 - 15.

The U. S. Office of Management and Budget's Circular 87, *Cost Principles for State, Local and Indian Tribal Governments*, provides guidance for developing indirect cost allocation plans used for charging certain administrative costs to federal grant programs. Guidelines and illustrations of indirect cost proposals are also provided in a brochure published by the Department of Health and Human Services entitled, *A Guide for State and Local Government Agencies: Cost Principles and Procedures for Establishing Cost Allocation Plans and Indirect Cost Rates for Agreements with the Federal Government*.



**Cost Allocation in Overland Park, Kansas**

Calculating and allocating indirect costs does not require an elaborate system. Smaller cities, such as Overland Park, Kansas, have developed a system for allocating indirect costs, based on the total costs of departments identified by staff as providing administrative and support services.

At the time of our original report, Overland Park calculated its overhead rate by taking the total costs of the administrative and support service departments (Mayor and Council, Law, Human Resources, etc.), and dividing it by the total expenditures for all other departments (less capital outlay, debt service, and capital improvements). The resulting rate was then applied to each user fee-related service's direct expenditures.

**An interim allocation method is needed.** Until the activity-based costing system is completed, the city manager should develop an interim cost allocation method and submit it to the federal government for approval. Once approved, the city manager should seek reimbursement of recoverable costs from federal grants. In addition, the city manager should ensure departments use the indirect cost allocation plan to determine the indirect costs associated with providing fee-based services and begin comparing the full costs of fee-based activities to the revenues received.

## **Recommendations**

1. The city manager should submit his proposed user fee policy and review process drafts to the City Council for deliberation.
2. The city manager should establish criteria for determining which fees will be subject to routine review of revenues, expenditures and cost recovery amounts that focus not only on the amount of revenues derived from the individual fees but also allows for full compliance with the reporting requirements of GASB 34.
3. Once criteria for determining which fees to monitor have been established, the city manager should ensure operating departments collect and submit the necessary information on individual user fees to fully comply with the developed criteria. Aggregate information on user fee revenues and costs should be reported separately from other revenue sources.
4. The city manager should establish an interim method of allocating the city's indirect costs for use until activity-based costing efforts are completed. Once developed, the city manager should ensure indirect costs are allocated to the operating departments and included in each department's calculation of full costs for providing fee-based activities.
5. The city manager should direct departments to calculate cost recovery rates using the current information on fee revenues, direct costs, and the allocated indirect costs, and submit this information to the Office of Management and Budget, for communication to the City Council and their establishment of cost recovery goals.
6. The city manager should submit the city's interim indirect cost allocation plan to the federal government for approval. Once approved, the city manager should seek reimbursement of allowable administrative costs from federal grants.

---

## **Appendix A**

---

### **Prior Recommendations**

*Fees and Service Charges Follow-up*

### **Prior Recommendations**

---

1. The city manager should develop a comprehensive list of city services, identifying all services funded in part by user fees and others funded by other sources. Once developed, this list should be compared to similar lists obtained from comparable cities and found in literature on fees and service charges. From these comparisons, the city manager should identify any additional services that the city could consider for fee-based funding. The identified activities should be brought before the City Council for consideration.
2. The city manager should propose for City Council consideration a resolution establishing a fee policy which describes the level of funding the city will provide for different classifications of fees.
3. The city manager should complete an indirect cost allocation plan to determine what portion of the city's overhead costs will be the responsibility of the operating departments. The city manager should ensure that the cost allocations are provided to the operating departments and that portions of these costs are included in the calculation of the city's total costs in providing services for which we charge a fee.
4. The city manager should direct departments to gather and maintain information on the costs associated with administering grant funds that are reimbursable under OMB Circular A-87. The city manager should submit these costs along with the developed cost allocation plan to the federal government for approval. Once approved, the city manager should ensure departments begin seeking reimbursements of the allowable costs.
5. The city manager should direct all departments with fee-based activities to begin identifying the full costs associated with providing the fee-based services, including a portion of the indirect costs, allocated to the operating department based on the city manager's cost allocation plan.
6. The city manager should further direct departments to begin tracking the revenues collected for each fee-based activity in a manner that allows the revenues collected for each fee to be individually identified.
7. The city manager should establish a system to monitor departments as they track fee revenues and expenditures and calculate actual cost recovery rates to ensure that this work is completed satisfactorily. The developed system should include routine comparison of actual cost recoveries to those established by City Council policies and the periodic reporting of the results of this comparison to the Council for review and comment. The developed

*Fees and Service Charges Follow-up*

system should also include a mechanism for periodic review and adjustment of the fee amounts charged and the established cost recovery goals.

---

---

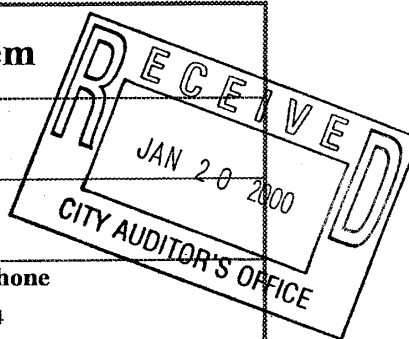
## **Appendix B**

---

### **Audit Report Tracking System (ARTS) Report**

*Fees and Service Charges Follow-up*



<b>Audit Report Tracking System</b>																							
<b>1. Audit Title</b> Fees and Services Charges	<b>2. This Report Date</b> January 12, 2000																						
<b>3. Department</b> City Manager-Office of Management & Budget	<b>4. Last Report Date</b> April 1999																						
<b>5. Department Head</b> Larry D. Plaisted	<b>6. Contact Person/Phone</b> Troy Schulte 513-1334																						
<b>7. Audit Release Date</b> February 1998	<b>8. ARTS Number</b> 978-017-3																						
<b>9. Status of All Audit Recommendations</b>																							
<table border="1" style="width: 100%; border-collapse: collapse;"> <thead> <tr> <th style="width: 25%; text-align: left;">Status</th> <th style="width: 25%; text-align: left;">Date</th> <th style="width: 25%; text-align: left;">Status</th> <th style="width: 25%; text-align: left;">Date</th> </tr> </thead> <tbody> <tr> <td>1 Implemented</td> <td>6/1/98</td> <td>5 Implemented</td> <td>10/22/98</td> </tr> <tr> <td>2 In Progress</td> <td>11/19/98</td> <td>6 In Progress</td> <td>6/1/98</td> </tr> <tr> <td>3 In Progress</td> <td>10/1/99</td> <td>7 Implemented</td> <td>11/19/98</td> </tr> <tr> <td>4 In Progress</td> <td>10/1/99</td> <td></td> <td></td> </tr> </tbody> </table>				Status	Date	Status	Date	1 Implemented	6/1/98	5 Implemented	10/22/98	2 In Progress	11/19/98	6 In Progress	6/1/98	3 In Progress	10/1/99	7 Implemented	11/19/98	4 In Progress	10/1/99		
Status	Date	Status	Date																				
1 Implemented	6/1/98	5 Implemented	10/22/98																				
2 In Progress	11/19/98	6 In Progress	6/1/98																				
3 In Progress	10/1/99	7 Implemented	11/19/98																				
4 In Progress	10/1/99																						
<b>7. Recommendations Included in this Report</b>																							
<p><b>1. The city manager should develop a comprehensive list of city services, identifying all services funded in part by user fees and others funded by other sources. Once developed, this list should be compared to similar lists obtained from comparable cities and found in literature on fees and service charges. From these comparisons, the city manager should identify any additional services that the city could consider for fee-based funding. The identified activities should be brought before the City Council for consideration.</b></p> <p>This recommendation has been implemented. In June, 1998, OMB staff compiled a list of all services funded by user fees and began comparing these fees and services to other jurisdictions. OMB will continue the research on new and increased fees for service and present that information to the City Council. As part of the 1999-00 budget process, new or increased fees totaling \$712,927 were recommended by the city manager. The City Council adopted one new fee increase of \$1 dollar for waste tire drop-off, and \$1 dollar for street cut inspections. The adopted budget reflects increased fees totaling \$412,927.</p>																							
<p><b>2. The city manager should propose for City Council consideration a resolution establishing a fee policy which describes the level of funding the city will provide for different classifications of fees.</b></p> <p>In progress. During the budget priority setting process in December 1998, the City Manager presented the City Council with a "proposed" user fee policy. Additional information on current cost recovery was solicited from departments during the 2000-01 budget process. Attached as a companion to this report is a program analysis of the major fee supported activities showing the program revenue, direct program costs and the percentage recovered. The next step proposes the implementation of broad guidelines for the use of user fees that is consistent with the revenue objectives outlined in the FOCUS Governance Plan. These guidelines will be submitted to council following the 2000-01 budget process.</p>																							

## Audit Report Tracking System

**Audit Title: User Fees and Service Charges**

**Report Date: January 12, 2000**

### 7. Recommendations Included in this Report (continued)

3. **The city manager should complete an indirect cost allocation plan to determine what portion of the city's overhead costs will be the responsibility of the operating departments. The city manager should ensure that the cost allocations are provided to the operating departments and that portions of these costs are included in the calculation of the city's total costs in providing services for which we charge a fee.**

In progress. In October of 1999, the City Manager submitted the response to Council Resolution #990401. This report outlined the implementation strategy for the use of Activity Based Costing principles for the benefit of creating cost efficiencies. An analysis of indirect cost and the feasibility of implementing a citywide indirect cost allocation plan will be reviewed and after discussions with the Finance and Administration Committee Chair, a recommendation on cost allocation methodologies will be made. This discussion will identify the potential benefit of seeking indirect cost reimbursement from grant funded programs. Additionally, this discussion will identify the application of indirect costs to city programs and the best methodology for doing so.

4. **The city manager should direct departments to gather and maintain information on the costs associated with administering grant funds that are reimbursable under OMB Circular A-87. The city manager should submit these costs along with the developed cost allocation plan to the federal government for approval. Once approved, the city manager should ensure departments begin seeking reimbursements of the allowable costs.**

In progress. The City Manager has directed the Office of Management and Budget to determine the potential recovery of indirect costs from grants. All departments will be asked to review which grant programs allow for recovery of indirect costs and whether the recovery would reduce the amount available for direct program services. This effort will begin immediately. After the initial analysis a report will be made to the Finance and Audit Committee. If that analysis determines that a cost allocation plan should be developed using OMB Circular A-87 guidelines, staff will identify a work plan to accomplish that effort. This work plan will identify whether the work should be performed by consultant, or with existing staff, and the cost and the time frame for implementation.

5. **The city manager should direct all departments with fee-based activities to begin identifying the full costs associated with providing the fee based services, including a portion of the indirect costs, allocated to the department based on the city manager's cost allocation plan.**

Implemented. On October 22, 1998, the city manager distributed a memo to all department directors instructing them to complete a fee-based cost analysis. Results of the analysis were transmitted to the Budget Office on November 20, 1998. As part of the review process outlined in the response to recommendation number seven, work will continue in this area.

## Audit Report Tracking System

**Audit Title: User Fees and Service Charges**

**Report Date: January 12, 2000**

### 7. Recommendations Included in this Report (continued)

- 6. The city manager should further direct departments to begin tracking the revenues collected for each fee-based activity in a manner that allows the revenues collected for each fee to be individually identified.**

In progress. Currently, the majority of user fees collected by the departments are identified by specific revenue source codes and tracked annually by these codes. The city will explore the feasibility and practicality of itemizing specific user fees (in conjunction with the Finance Department) and of utilizing sub-organization and sub-revenue codes to accomplish this recommendation. The Activity Based Costing report raised the issue of too much detail as a problem encountered by other jurisdictions. More work needs to be done with the departments, to determine the appropriate level of revenue and expenditure detail required.

- 7. The city manager should establish a system to monitor departments as they track fee revenues and expenditures and calculate actual cost recovery rates to ensure that this work is completed satisfactorily. The developed system should include routine comparison of actual cost recoveries to those established by City Council policies and the periodic reporting of results of this comparison to the Council for review and comments. The developed system should also include a mechanism for periodic review and adjustment of the fee amounts charged and the established cost recovery goals.**

Implemented. In November 1998, the city manager outlined to the City Council a plan to implement an annual user fee review as a component of the annual budgeting process. User fee and cost recovery percentages were required of the departments as part of the 2000-01 budget submittal. The attached listing identifies cost recovery information for the major fee categories over a period of two years. One issue is the lack of good tracking information system to capture and report accurate cost data. This is a problem identified in the activity based costing report and will be addressed as part of the competitive review and activity based costing initiatives. This report will be further refined and presented annually to the City Council during the budget process.

Fees and Service Charges Follow-up

User Fees									
Departments/Fees	1999-00 Adopted Revenue	1999-00 Program Costs	1999-00 Cost Recovery	2000-01 Estimated Revenue	2000-01 Program Costs	2000-01 Cost Recovery	Revenue Change	Year of Last Fee Change	Authority to Increase
City Clerk									
Fees for Miscellaneous Reports	\$ -	47,006	0.0%	5,000	53,279	9.4%	5,000	1988	City Council
Health									
Health and Medical Records									
Birth & Death Certificates	440,000	370,109	118.9%	460,000	571,740		20,000	1980	City Council
Medical Records	35,000	186,249	21.1%	35,000					State
Health and Medical Records Total:	\$ 475,000	\$ 536,358	88.6%	\$ 495,000	\$ 571,740	86.6%	\$ 20,000		
Neighborhood & Community Services									
Animal Control Program									
Adoption Fees	117,854			46,000			(71,854)	1995	City Council
Animal Spay/Neuter	57,000			60,000			3,000	1995	City Council
Dead Animal Removal Charges	15,000			17,000			2,000	1994	City Council
Animal Pick-Up Other Jurisdiction	7,821			12,000			4,179	1999	Administrative
Animal Control Program:	\$ 197,675	\$ 1,219,697	16.2%	\$ 135,000	\$ 1,342,054	10.1%	\$ (62,675)		
City Planning & Development									
GIS Fees-Computer Mapping	15,000	222,191	6.8%	15,000	243,216	6.2%	-	1996	Administrative
Public Works									
GIS Service Fees	-	360,149	0.0%	25,000	370,953	6.7%	25,000	New	Administrative
Environmental Management									
Neighborhood Dumpsters	8,800	44,000	20.0%	8,800	44,000	20.0%	-	1998	City Council
Tire Disposal Fee (Drop-Off Only)	10,000	6,217	160.8%	2,500	7,500	33.3%	(7,500)	1999	City Council
Bulky Item Express Collection	-	-	-	49,687	49,687	100.0%	49,687	New	City Council
Trash Receptacles	-	-	-	232,869	232,869	100.0%	232,869	New	City Council
User Fees									

User Fees

Departments/Fees	1999-00 Adopted Revenue	1999-00 Program Costs	1999-00 Cost Recovery	2000-01 Estimated Revenue	2000-01 Program Costs	2000-01 Cost Recovery	Revenue Change	Year of Last Fee Change	New Fees or Proposed Fee Increases	Authority to Increase
<b>Parks &amp; Recreation</b>										
Zoo Program										
Zoo Admission Fees	1,456,000			1,603,000			147,000	Pending	X	Park Board
Zoo Parking & Special Event	513,250			478,000			(35,250)	Pending	X	Park Board
Zoo Service Charges (As adjusted)	3,430,750			3,346,000			(84,750)	Pending	X	Park Board
<b>Zoo Program:</b>	<b>\$ 5,400,000</b>	<b>\$ 8,955,575</b>	<b>60.3%</b>	<b>\$ 5,427,000</b>	<b>\$ 8,992,445</b>	<b>61.0%</b>	<b>\$ 27,000</b>			
<b>Plaza Tennis Court Fees</b>	<b>\$ 94,400</b>	<b>\$ 133,242</b>	<b>70.8%</b>	<b>\$ 109,140</b>	<b>\$ 131,059</b>	<b>83.3%</b>	<b>\$ 14,740</b>		X	<b>Park Board</b>
<b>Golf Course Fees</b>	<b>\$ 3,770,000</b>	<b>\$ 3,168,532</b>	<b>118.9%</b>	<b>\$ 3,796,000</b>	<b>\$ 3,391,869</b>	<b>111.9%</b>	<b>\$ 26,000</b>			<b>Park Board</b>
<b>Athletic Programs</b>										
Sports-Adult Leagues	72,331			69,560			(2,771)	Pending	X	Park Board
Sports-Youth	48,600			58,600			10,000	Pending	X	Park Board
Sports-Tournaments	28,120			19,250			(8,870)	Pending	X	Park Board
<b>Athletic Programs:</b>	<b>\$ 149,051</b>	<b>\$ 505,493</b>	<b>29.5%</b>	<b>\$ 147,410</b>	<b>\$ 514,944</b>	<b>28.6%</b>	<b>\$ (1,641)</b>			
<b>Environmental Education Program</b>										
Aquatics-Swimming	67,590	667,846	10.1%	147,315	614,440	24.0%	79,725	Pending	X	Park Board
Cultural Arts Fees/Permits	64,000	667,804	9.6%	68,100	786,355	8.7%	4,100	Pending	X	Park Board
Bruce R. Watkins Center	31,000	68,645	45.2%	31,000	69,727	44.5%	-	1999	X	Park Board
		125,206	0.0%	2,500	137,687	1.8%	2,500	1999	X	Park Board
<b>Urban Recreation Fees</b>	<b>\$ 2,000</b>	<b>\$ 298,935</b>	<b>0.7%</b>	<b>\$ 5,000</b>	<b>\$ 448,835</b>	<b>1.1%</b>	<b>\$ 3,000</b>	<b>Pending</b>	<b>X</b>	<b>Park Board</b>
<b>Community Centers</b>										
Kansas City North	45,000	277,880	16.2%	47,000	288,713	16.3%	2,000	Pending	X	Park Board
Garrison	8,000	203,164	3.9%	8,000	212,654	3.8%	-	Pending	X	Park Board
Blue Valley	7,000	209,876	3.3%	-	-	-	(7,000)		X	Park Board
Lykins	7,000	231,481	3.0%	7,000	246,485	2.8%	-	Pending	X	Park Board
Southeast	40,000	233,429	17.1%	42,000	289,410	14.5%	2,000	Pending	X	Park Board
Westport-Roanoke	23,000	278,950	8.2%	25,000	247,393	10.1%	2,000	Pending	X	Park Board
Hill Crest	60,000	352,782	17.0%	93,925	357,839	28.2%	33,925	Pending	X	Park Board
Brush Creek	60,000	423,249	14.2%	66,440	434,275	15.3%	6,440	Pending	X	Park Board
Gregg-Klice	80,000	607,192	13.2%	162,988	624,856	26.1%	82,988	Pending	X	Park Board
Line Creek	400,000	699,124	57.2%	466,863	717,216	65.1%	66,863	Pending	X	Park Board
Westside	25,000	388,205	6.8%	88,400	616,723	14.3%	83,400	Pending	X	Park Board
Marlborough	23,000	296,864	7.7%	55,250	403,710	13.7%	32,250	Pending	X	Park Board
<b>Community Centers:</b>	<b>\$ 778,000</b>	<b>\$ 4,182,176</b>	<b>18.6%</b>	<b>\$ 1,062,865</b>	<b>\$ 4,439,274</b>	<b>23.9%</b>	<b>\$ 284,865</b>			
<b>User Fees Total</b>	<b>\$ 11,062,516</b>	<b>\$ 21,209,972</b>	<b>52.2%</b>	<b>\$ 11,765,186</b>	<b>\$ 22,341,934</b>	<b>52.7%</b>	<b>\$ 702,670</b>			

Licenses and Permits										
Departments/Fees	1999-00 Adopted Revenue	1999-00 Program Costs	1999-00 Cost Recovery	2000-01 Estimated Revenue	2000-01 Program Costs	2000-01 Cost Recovery	Revenue Change	Year of Last Fee Change	New Fees or Proposed Fee Increases	Authority to Increase
Codes Administration										
Codes Administration Fees										
Contractor Licenses	29,085			26,331			(2,754)	1998		City Council
Fees for Information	2,400			8,649			7,249	1998		City Council
Sale of Building Codes	747			741			(6)	1998		City Council
Miscellaneous Service Fees	808			1,046			238	1998		City Council
Standard & Applied Building Code	21,261			35,200			13,939	1998		City Council
Building Permit & Inspection Fees	5,390,533			5,460,040			69,507	1998		City Council
Certificate of Occupancy Fees	8,741			6,812			(1,929)	1998		City Council
Sign Inspection Fees	83,050			94,728			11,678	1998		City Council
Elevator Permits & Inspections	300,083			301,847			1,764	1998		City Council
Contractor Licenses Application Fees	4,545			3,775			(770)	1998		City Council
Contractors Examination Fees	7,578			8,507			929	1998		City Council
Registered Contractor Fees	7,633			7,604			(29)	1998		City Council
Application for Certificates	5,596			4,701			(895)	1998		City Council
Certificate of Qualification	67,021			70,061			3,040	1998		City Council
Periodic and Reinspection	66,388			49,524			(16,864)	1998		City Council
Trailer & Trailer Camp Permit	2,937			15,061			12,124	1998		City Council
Total Codes Administration Fees:	5,998,406	5,833,220	102.8%	6,095,627	5,951,141	102.4%	97,221			
Finance / Neighborhood Community Services										
Regulated Industries										
Taxicab Driver Licenses	12,120			12,120			-	Pending		City Council
Taxicab and Livery Vehicle Permits	50,500			50,500			-	Pending		City Council
Employee Liquor Permits	233,100			100,000			(133,100)	1998		City Council
Manager Adult Entertainment	14,544			14,544			-	1934		State
Alcoholic Beverage Licenses	606,000			525,000			(81,000)	Pending		City Council
Adult Entertainment Permit	23,230			23,230			-			
Total Regulated Industries:	939,494	397,851	236.1%	725,394	486,044	149.2%	(214,100)			
Cigarette License Registrations	1,010			1,000			(10)	1989		Public Vote
Fire										
Fire Prevention Permits	825,000	955,773	86.3%	850,000	1,081,536	78.6%	25,000	1994		City Council
Health										
Food Inspection Fees	365,732	533,180	68.6%	365,732	523,599	69.8%	-	1990		Public Vote
Swimming Pool Permits/Inspections	120,000	283,222	42.4%	120,000	296,568	40.5%	-	1981		Public Vote
Air Quality / Asbestos Removal Permits	138,750	274,803	50.5%	162,100	204,244	79.4%	23,350	1996		Public Vote
Paramedic / EMT Certification	7,000	3,343	209.4%	1,050	3,500	30.0%	(5,950)	1981		City Council
Sound Device Permits	1,000	1,433	69.8%	2,500	1,500	166.7%	1,500	1982		City Council
Neighborhood & Community Services										
Pet Licenses	203,727	179,578	113.4%	190,000	299,057	63.5%	(13,727)	1998		Administrative

Licenses and Permits

1/11/00 1:49 PM

3

# Licenses and Permits

Department/Fees	1999-00 Adopted Revenue	1999-00 Program Costs	1999-00 Cost Recovery	2000-01 Estimated Revenue	2000-01 Program Costs	2000-01 Cost Recovery	Revenue Change	Year of Last Fee Change	New Fees or Proposed Fee Increases	Authority to Increase
<b>City Planning &amp; Development</b>										
City Plan Commission Fees	\$ 148,000	\$ 477,711	31.0%	\$ 153,500	\$ 477,711	32.1%	\$ 5,500	1999		City Council
City Plan Commission Service Fees	\$ 1,500	\$ 2,945	50.9%	\$ 1,750	\$ 3,035	57.7%	\$ 250	1999		City Council
Zoning Adjustment Fees	\$ 40,000	\$ 109,289	36.6%	\$ 32,000	\$ 112,610	28.4%	\$ (8,000)	1983		City Council
Historic District Fees	\$ 3,000	\$ 145,142	2.1%	\$ 3,000	\$ 190,778	1.6%	\$ -	1996		City Council
Encroachment Licenses	\$ 1,600	\$ -	-	\$ 3,000	\$ -	-	\$ 1,400	1998		City Council
Enterprise Zone Application Fees	\$ 1,500	\$ 52,437	2.9%	\$ 1,500	\$ 30,046	5.0%	\$ -			City Council
<b>Police</b>										
Private Officer Licensing Fees	\$ 253,894	\$ 253,894	100.0%	\$ 268,936	\$ 268,936	100.0%	\$ 15,042	1997		Police Board
<b>Public Works</b>										
Blasting Permits	\$ 3,000	\$ 3,000	100.0%	\$ 15,000	\$ 15,000	100.0%	\$ 12,000	1997		City Council
Construction/Repair Permits	\$ 1,400,000	\$ 673,275	207.9%	\$ 1,400,000	\$ 705,000	198.6%	\$ -	1989		City Council
Street Excavation Permits	\$ 557,000	\$ 454,334	122.6%	\$ 571,610	\$ 487,508	117.3%	\$ 14,610	1999	X	Administrative
Traffic Control Permits	\$ 260,200	\$ 260,000	100.1%	\$ 260,000	\$ 260,000	100.0%	\$ (200)	1998		City Council
Erosion Control Permits	\$ 383,155	\$ 383,155	100.0%	\$ 383,500	\$ 383,500	100.0%	\$ 345	1999		City Council
Loading Zone Permits	\$ 50,000	\$ 43,548	114.8%	\$ 50,000	\$ 45,600	109.6%	\$ -	1997		City Council
<b>Total Licenses and Permits</b>	<b>\$ 11,702,968</b>	<b>\$ 11,321,132</b>	<b>103.4%</b>	<b>\$ 11,857,199</b>	<b>\$ 11,826,973</b>	<b>98.8%</b>	<b>\$ (45,769)</b>			

1/11/00 1:49 PM

Fees and Service Charges Follow-up

Other Charges										
Departments/Fees	1999-00 Adopted Revenue	1999-00 Program Costs	1999-00 Cost Recovery	2000-01 Estimated Revenue	2000-01 Program Costs	2000-01 Cost Recovery	Revenue Change	Year of Last Fee Change	New Fees or Proposed Fee Increases	Authority to Increase
Information Technology										
Admin. Service Charges - Water Services	\$ 715,455	715,455	100.0%	\$ 853,782	853,782	100.0%	\$ 138,327	1999		Administrative
Admin. Service Charges - TWA	\$ 19,240	19,240	100.0%	\$ 20,478	20,478	100.0%	\$ 1,238	1999		Administrative
Fire Department										
Fire Protection Services - KCI	\$ 1,310,000	1,310,000	100.0%	\$ 1,771,516	1,771,516	100.0%	\$ 461,516	1998	X	Administrative
Health Department										
Day Care Inspection Fees	\$ 40,000	40,000	100.0%	\$ 40,170	40,170	100.0%	\$ 170	1998		State
Neighborhood & Community Services										
Tow-in and Storage Charges	\$ 1,550,000	1,539,769	100.7%	\$ 1,550,000	1,511,380	102.6%	\$ -	1998		Administrative
Reimbursement for Building Demolition	\$ 175,000	4,346,518	4.0%	\$ 150,000	4,078,604	3.7%	\$ (25,000)	1998		City Council
Reimbursement for Weed Control	\$ 130,000	632,219	20.6%	\$ 180,000	736,834	24.4%	\$ 50,000	1993		City Council
City Development										
Relocation Fees	\$ 75,400	118,077	63.9%	\$ 75,400	136,682	55.2%	\$ -	1999		City Council
Public Works										
Special Assessment/Engineering Fees	\$ 206,406	206,406	100.0%	\$ 160,000	160,000	100.0%	\$ (46,406)	1967		
Dangerous Tree Removal	\$ -	-	-	\$ 5,000	-	-	\$ 5,000			
Other Fees Total:	\$ 4,221,501	\$ 8,927,684	47.3%	\$ 4,806,346	\$ 9,309,446	51.6%	\$ 584,845			

1/11/00 1:49 PM

5

Other Charges

Other Charges

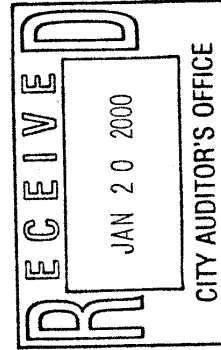
5

1/11/00 1:49 PM



# Rentals

Departments/Fees	1999-00 Adopted Revenue	1999-00 Program Costs	1999-00 Cost Recovery	2000-01 Estimated Revenue	2000-01 Program Costs	2000-01 Cost Recovery	Revenue Change	Year of Last Fee Change	New Fees or Proposed Fee Increases	Authority to Increase
Neighborhood and Community Services Linwood Multi-Purpose Center	\$ 50,000	\$ 629,980	7.9%	\$ 50,000	\$ 677,068	7.4%	\$ -			City Council
Convention and Entertainment Centers American Royal Rentals	\$ 6,300,000	\$ 6,714,766	93.8%	\$ 6,200,000	\$ 6,792,533	91.3%	\$ (100,000)			City Council
Barile Hall Rentals	\$ 5,250,000	\$ 11,309,330	46.4%	\$ 5,050,000	\$ 11,895,310	42.5%	\$ (200,000)			City Council
Convention Center Garages	\$ 1,674,000	\$ 1,373,994	121.8%	\$ 1,594,000	\$ 1,362,740	117.0%	\$ (80,000)			City Council
City Development City Hall Rentals	\$ 216,000	\$ 216,000	100%	\$ 216,000	\$ 216,000	100%	\$ -			Administrative
Wharf and Riverfront Property Rentals	\$ 1,000	\$ -		\$ 1,800	\$ -		\$ 800			City Council
State Line Wharf Rentals	\$ 80,000	\$ -		\$ 45,000	\$ -		\$ (35,000)			City Council
Misc. Buildings & Lots / PACCAR	\$ 316,508	\$ 360,356	86%	\$ 285,781	\$ 336,950	85%	\$ (30,727)			City Council
Swope Parkway Building Rentals	\$ 273,628	\$ 260,050	105%	\$ 280,000	\$ 260,000	106%	\$ 6,372			City Council
Parks and Recreation Shelter Rentals	\$ 25,000	\$ 20,000	125.0%	\$ 25,000	\$ 20,000	125.0%	\$ -			Park Board
Brush Creek Concessions	\$ 100,000	\$ 532,178	18.5%	\$ 25,000	\$ 578,316	4.3%	\$ (75,000)			Park Board
Concession Rentals	\$ 10,000	\$ -		\$ 15,700	\$ -		\$ 5,700			Park Board
Rental of Show Wagon	\$ 12,000	\$ 8,000	150.0%	\$ 20,300	\$ 15,000	135.3%	\$ 8,300			Park Board
<b>Total Rentals:</b>	<b>\$ 14,308,136</b>	<b>\$ 21,424,654</b>	<b>66.5%</b>	<b>\$ 13,808,581</b>	<b>\$ 22,153,817</b>	<b>62.3%</b>	<b>\$ (499,555)</b>			



1/11/00 1:49 PM

*Fees and Service Charges Follow-up*

---

## **Appendix C**

---

### **City Manager's Draft User Fee/Service Charge Policy/Annual User Fee Review Process**

*Fees and Service Charges Follow-up*



## Office of the City Manager

**DATE:** October 22, 1998

**TO:** Department Directors

**FROM:** Robert L. Collins, City Manager

**SUBJECT:** User Fees/Service Charges

On August 14, the Office of Management and Budget distributed a memo that outlined the work they were conducting in the area of user fee cost analysis and policy development. Over the past two months, and as a result of your cooperation, they have made significant progress. However, the work is not yet complete.

In light of the projected budget imbalance for the 1999-00 fiscal year, it is imperative that we maximize our opportunity to generate revenue sufficient to offset operating expenditures. This is of particular importance in the areas of user fees and service charges. Over the past two months, staff has undertaken a preliminary cost recovery analysis of selected user fee categories. Although the results have not yet been fully validated, they suggest that in some areas we are not generating user fees sufficient to recoup programmatic costs, a point raised by the City Auditor in his February 1998 report on Fees and Service Charges.

In conjunction with the 1999-00 budget submittal process, I am requesting that you complete a cost recovery analysis of all your user fee categories (initial attention should be directed to your largest revenue producing fees). In many cases user fees may directly support a specific program. As such, an analysis of direct program costs to user fees generated should be undertaken. *Since we do not have a citywide indirect cost allocation plan, only direct costs should be evaluated at this time.*

If your analysis reveals a cost recovery less than 100 percent, evaluate the extent to which your fees can be increased to recover full direct costs (or a more appropriate level) and recommend the corresponding fee increase. When evaluating increases in user fees please consider the following:

1. Direct cost of the service supported by the user fee.
2. Significance of public benefit, public and individual benefit, and pure individual benefit.
3. Significance of nonresidents' usage of service.
4. Impact on disadvantaged citizenry.
5. Impact on demand for service (who else provides the service and will an increase cause them to take their business elsewhere).

6. Difficulty in implementing and collecting.
7. Impact on existing fees and revenues collected.
8. Cost recovery already established by the federal and state government or governing board.
9. Ability to implement increases administratively, by ordinance, or by public vote.

In addition to evaluating existing user fees, I would like your input on the implementation of new fees and service charges in your respective areas.

I would like your analysis and recommendations no later than Friday, November 20. Your response should address the nine points referenced above and should be coordinated through the Office of Management and Budget. In conjunction with this work, I am also proposing the implementation of an annual **User Fee Review Process** and citywide **User Fee Policy**. Both items, in “draft” form, are attached for your review and comment.

Please let me know if you have any questions.

cc: Larry Plaisted  
Councilwoman Judith J. Swope, Finance Committee Chair  
Mark Funkhouser  
Budget Liaisons

## User Fee/Service Charge Policy (DRAFT)

1. User fees are an acceptable method of paying for those services that generate direct benefits to the persons who receive the services.
2. The City of Kansas City, Missouri intends to recoup the costs of providing certain services through user fees (FOCUS Governance plan). City policy for cost recovery on individual fees is determined by the City Council. All costs relating to the recovery goal established by the City Council are to be included in the user fee base.
3. Recovery of service cost should generally strive for full costs recovery but should be set at a level based upon how the service relates to the following criteria:
  - Cost of the service
  - Significance of public benefit, public and individual benefit, and pure individual benefit
  - Significance of nonresidents' usage of service
  - Impact on disadvantaged citizenry
  - Impact on demand for service
  - Difficulty in implementation and collection
  - Impact on existing fees and revenues collected
  - Cost recovery already established by the federal and state government or governing board
  - Ability to implement increases administratively, by ordinance, or by public vote
4. Cost of service. The amount of the fee should not exceed the overall cost of providing the service for which the fee is imposed. In calculating the cost of service, direct and indirect costs are included. That is:
  - Direct costs are directly related to the provision of the service; and
  - Support costs, which are more general in nature, provide support for the provision of the service (can only be recouped through the use of a citywide indirect cost allocation plan).
5. Fees for parks and recreation and police services shall be coordinated with the appropriate boards.
6. In general, revenues collected from a particular source should be used to offset the costs of providing that service.
7. In accordance with the timetable and user fee review process outlined by the Office of Management and Budget, user fee review shall be undertaken annually in order for the City Council to adopt user fees as part of the budget process each year.
8. Additional services shall be selected for study to determine new fees each year by the relevant department with assistance from the Office of Management and Budget and the City Auditor's Office.

### **Proposed Annual User Fee Review Process (DRAFT)**

The proposed user fee review process outlines how each department will thoroughly review existing user fees and program costs and report this information annually to the City Manager, City Auditor, and Mayor and Council. The process is similar to ones utilized by other cities, as well as the process outlined in the City Auditor's February 1998 report.

**Management  
and Budget:**

**June 1**

Distribute user fee review working papers and forms to departments

**Departments:**

**June 1 to June 30**

Identify direct program and unit costs for all user fee supported activities.

Personal Services (salaries and benefits)

Contractual Services (including work order services, i.e. motor equipment, duplicating, etc.)

Commodities

Depreciation

Lease purchase payments (principal and interest)

Debt service payments (principal and interest)

Costs from other departments not included in contractual services

Indirect costs (long-term will develop a citywide indirect cost allocation plan)

Develop expenditure and revenue estimates to match forecasted activity levels.

Calculation of projected revenue estimates from all user fee supported programs.

Using expenditure and revenue estimates calculate the recovery rate the current fee affords the organization and compare to recovery rates established by the City Council

**Management  
and Budget**

**July 1 to August 1**

OMB reviews (in conjunction with the departments) departmental summaries of cost and user fee analysis.

Cost recovery rates are reported to the City Manager and recommendations consistent with council policy for user fee adjustments are proposed.



- Internal Auditor:**     **August 1 to September 1**  
Internal Auditor reviews recommend changes in fees or cost recovery goals for accuracy and reports findings to the City Manager.
- Law:**     **August 1 to September 1**  
Concurrent with the Internal Auditor's review, the Law Department will review all user fee proposals (both existing and new) for Hancock Amendment constraints.
- City Manager:**     **September 1 to September 30**  
Notify the Mayor and Council of any proposed fee changes (including fee increase, decreases, or new fee implementation) and address concerns/issues identified by the Internal Auditor.
- City Council:**     **October 1 to November 30**  
During annual budget discussions and priority sessions, City Council reviews proposed citywide fee changes and reviews cost recovery goals recommended by each department director. Fee changes and cost recovery goals are approved for the coming fiscal year and adopted by ordinance.

*Fees and Service Charges Follow-up*

---

## **Appendix D**

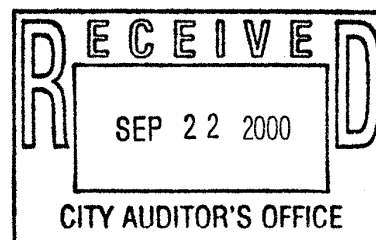
---

### **City Manager's Response**

*Fees and Service Charges Follow-up*



## Office of the City Manager



**DATE:** September 22, 2000

**TO:** Mark Funkhouser, City Auditor

**FROM:** Robert L. Collins, City Manager

**SUBJECT:** Response to Draft Follow-up Report on Fees & Service Charges

I have reviewed the Draft Follow-up Report on Fees and Service Charges and have the following comments to your recommendations:

1. The city manager should submit his proposed user fee policy and review process drafts to the City Council for deliberation. (Agree)

A draft of the proposed policy statement that will be put forth for adoption will be as follows:

“The City of Kansas City, Missouri intends to recoup the costs of providing certain services through user fees. The City will attempt to recover all costs relating to the services, both direct and indirect. The level of recovery will consider all factors and criteria and issues for this recovery policy will be specified by administrative regulation. Fees for parks and recreation and police services will be coordinated with the appropriate boards. A review of user fees shall be conducted annually as part of the budget process and shall include seeking additional city services to study to determine if new fees should be implemented.”

2. The city manager should establish criteria for determining which fees will be subject to routine review of revenues, expenditures and cost recovery amounts that focus not only on the amount of revenues derived from the individual fees but also allows for the full compliance with the reporting requirements of GASB 34. (Agree)

The data base for this purpose will be comprehensive so that it includes the specific user fees that are being tracked as well as the fees and revenues that will be required by GASB 34 reporting. In developing this data base we will coordinate the effort with the Finance Department, outside auditors and other affected departments.

Mark Funkhouser  
September 22, 2000  
Page #2

3. Once criteria for determining which fees to monitor have been established, the city manager should ensure operating departments collect and submit the necessary information on individual user fees to fully comply with the developed criteria. Aggregate information on user fee revenues and costs should be reported separately from other revenue sources. (Agree)

As part of the budget process, departments have been required to report data on service fees and revenues. This data include: all direct costs of service, revenue generated, percent of costs recovered and the department recommendation for what the recovery rate should be for the service.

4. The city manager should establish an interim method of allocating the city's indirect costs for use until activity-based costing efforts are completed. Once developed, the city manager should ensure indirect costs are allocated to the operating departments and included in each department's calculation of full costs for providing fee-based activities. (Agree)

The Office of Management and Budget has included a decision package in its 2001-02 budget request to hire a consultant and purchase a software package for the development of a citywide cost allocation plan and for the calculation of indirect cost rates. The estimated cost is \$500,000.

5. The city manager should direct departments to calculate cost recovery rates using the current information on fee revenues, direct costs, and the allocated indirect costs, and submit this information to the Office of Management and Budget, for communication to the City Council and their establishment of cost recovery goals. (Agree)

The Office of Management and Budget will establish a new Administrative Regulation to implement the procedures to be followed by city departments.

6. The city manager should submit the city's interim indirect cost allocation plan to the federal government for approval. Once approved, the city manager should seek reimbursement of allowable administrative costs from federal grants. (Agree)

See response to recommendation number four.



Robert L. Collins

RLC:emm